



WHITE PAPER

Getting to Grips with Brexit Uncertainty

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Getting to Grips with Brexit Uncertainty

Although many issues remain uncertain, it seems increasingly likely that Brexit will happen and the UK will leave the EU on 29 March 2019. Brexit signifies an unprecedented geopolitical shift for the UK with substantial consequences for financial services throughout the EU.

A great deal of the discussion has focused on UK banks operating under EU financial services passports in the EU or the slightly wider EEA, which includes Norway, Iceland and Lichtenstein. Under this arrangement, a bank can provide services from its home base to customers in other countries, or it can establish branches abroad.

But in practice, passporting is a two-way street and there are also around 8,000 firms using passports to do business in the UK. With so much uncertainty, what are the options for banks with operations straddling the UK and EU?

Passporting Will End

The UK government acknowledges that passporting is a feature of the single market, so the UK will no longer qualify. Although a substitute for the passport may emerge, this is unlikely to offer the simplicity and reciprocity of the current system and there are no firm plans.

A Daunting Compliance Burden

The end of passporting means that firms operating both in and out of the EEA will face an increasingly onerous compliance burden. EEA firms operating in the UK may have to establish separately authorized UK subsidiaries. These may be regulated in a similar way as any other UK entity. Similar requirements may well come into being for UK banks with subsidiaries in the EU. It also seems likely that there will be deadlines for obtaining authorization and compliance with the relevant domestic regulation.

In the absence of the passporting regime, the EU does provide for non-EEA countries to access EU markets where the EU considers their home state regulatory regime to be equivalent to the relevant EU regime. While welcome, this concept of “equivalence” is limited and there is no specific regime covering banking.

With so much uncertainty, how can banks plan for life after Brexit?

The End of Business as Usual?

FIS has held many constructive conversations about Brexit with UK banks operating in the EU and also banks domiciled in the EU with subsidiaries in the UK. Most of our discussions have revolved around data, regulatory compliance and processing. At a time when there is also great interest in data governance and lineage, many banks are taking the opportunity to review business and operating models.

A Role for FIS

As the world's largest provider of financial technology solutions, we have helped banks of all sizes extend their reach and achieve regulatory compliance across multiple jurisdictions. We empower clients by providing solutions that are continually proven in some of the world's most onerous regulatory regimes. Most of our mission-critical solutions can be deployed as software solutions, managed services, fully outsourced or as hybrid model, to facilitate and accommodate change.

We have already helped many banks plan for Brexit and prepare for success in the new order. The following short case study illustrates how one UK bank with an operation in Germany is preparing for life after Brexit. We believe there are many banks in a similar situation and, if so, we will be delighted to help.

CASE STUDY

Meeting the Brexit Challenge

In September 2017, FIS began to engage with a German subsidiary of a major UK bank. Operating under a European banking passport, the bank faced a daunting Brexit challenge and needed to acquire a German banking licence. The bank was running a legacy banking platform in a data centre in Berlin and sought to enhance the platform to make it fit-for-purpose. There were concerns that its technical partner could not provide the necessary business guidance and the right technical solution to navigate the complexity of Brexit. In addition, the bank expected additional regulatory requirements due to the change from a passport to a full banking licence.

Although the bank did not initially wish to replace its core platform, an initial discovery exercise identified technical infrastructure shortcomings that also needed to be addressed for the bank to seize new business opportunities. But the bank primarily needed a business partner that could help it navigate its regulatory challenge and act as an extension of its own back office.

Following a period of around three months of consultation, the bank decided to switch to FIS' proven solution and outsource most of its IT operation to FIS. Under this new partnership, FIS hosts and maintains the core platform, collates all data necessary for regulatory compliance and interfaces directly with the regulators. In other words, with FIS' IT outsourcing (ITO) model, the bank frees up resources to focus on its core competence of attracting and retaining customers while FIS operates and maintains the core banking platform.

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How it works

FIS' core and eBanking platforms form the beating heart of the solution. To keep total cost of ownership (TCO) down and ensure a fast deployment, the solution is run by FIS and delivered as a SaaS solution (Private Cloud). In this way, the bank has the comfort of knowing that FIS will deliver a performant, scalable and compliant solution, while all of its data is protected using leading security measures and remains in the EU. Ongoing, bi-yearly release upgrades from FIS will ensure a future-proof and robust solution. Furthermore, the core platform offers many additional capabilities out of the box, which will allow the bank to go to market with new products in a quicker and more cost-effective way, while increasing revenue per existing customer and attracting new customers.

In addition to the core banking replacement, additional solution components have been identified to enhance processing in the bank, such as workflow management, loan origination, document management and data management.

Going forward together

Once the new platform is fully operational, the bank intends to increase the level of automation of its back-office processing. This will enable the bank to free up even more resources to focus on growth through new customer acquisition and launching additional product lines, such as new mortgage offerings, to maintain its position as a leading lender. In conclusion, by partnering with FIS, the bank will overcome the Brexit challenge and at the same time enhance its competitiveness by being enabled to offer additional products quickly and profitably.

We would love to talk to you about how FIS can help you get to grips with Brexit uncertainty.

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